Podravka Group Business Results

for 1-12 2016 period

Content

Key financial indicators in 2016

(in HRK millions)	2016	2015	% change
Sales revenues[1]	4,185.5	3,626.8	15.4%
Gross profit	1,518.9	1,385.1	9.7%
EBITDA[2]	469.6	468.6	0.2%
Net profit after MI	182.4	397.3	(54.1%)
Normalized net profit after MI[3]	182.4	117.9	54.7%
Net cash flow from operating activities	476.7	274.2	73.8%
Cash capital expenditures	437.1	271.2	61.2%

(in HRK; market capitalization in HRK millions)	31 December 2016	31 December 2015	% change
Net debt / EBITDA	2.2	2.0	12.7%
Earnings per share	26.3	66.4	(60.3%)
Last price at the end of period	377.5	334.0	13.0%
Market capitalization	2,615.9	2,000.0	30.8%
Return on average equity	6.5%	17.7%	-1118 bb
Return on average assets[4]	3.5%	9.3%	-580 bb

Key highlights of 2016 business results:

- Sales revenues recorded an increase of 15.4% due to the 12-month effect of the consolidation of the Žito Group and despite the negative effect of FX differences in the total amount of HRK 54.4 million,
- The consolidation of the Žito Group initiated at the end of 2015, and the continued investments in New Markets, marked the movements in EBITDA in 2016,
- Without key one-off effects in 2015 arising from consolidation effects and specific tax benefits, the increase in net profit is 54.7%,
- The increase in net cash flow from operating activities of additional HRK 202.5 million and favourable crediting terms enabled the continuation of investments in the new Belupo factory and the development of new business segments and markets,
- Total capital expenditure for further business development in 2016 amounted to significant HRK 594.2 million, which is a 2.2 times growth compared to 2015.

[1]2015 reclassified, see Notes to the financial statements.
[2]EBITDA is calculated in a way that EBIT was increased by the depreciation and amortization and impairment of intangible and non-current tangible assets.
[3]2015 normalized for Žito favourable purchase gain and Belupo tax income.
[4]2015 restated, see Notes to the financial statements.

Significant events in 2016

Food Solution – new business segment

In 2016, Podravka entered a new operating segment, Food Solution, by which the company aims to make a step forward in the Gastro segment. Food Solution implies a completely new gastro segment in which, in addition to top quality products themselves, the customers also obtain the necessary know-how regarding the use of the products and services in the preparation of menus, organisation of kitchen chores and staff and planning investments in kitchen equipment.

For realisation of this project, the company invested in the construction of a factory specialized for the production of freshly prepared ready-to-eat and semi-prepared meals, extending over approximately 1500 m2 and equipped with the state-of-the-art and top-quality equipment for food cooking and preparation. Currently the offer includes 130 different products (meals) which are intended, among others, to institutions such as army, police, hospitals, deli departments in supermarkets and companies having own corporate restaurants. The range includes soups, cold appetizers, sauces and dressings, hot appetizers, main courses, marinated fresh meat, side dishes and desserts. These are fresh-made/cooked/baked ready-to-eat or semi-prepared meals, with top-quality ingredients and tastes without stabilisers, preservatives or additional additives. By special rules of preparation and packaging and following certain temperature regimes the durability is achieved, without losing quality in terms of nutritional composition, flavour and aroma of food.

Sale of the Beverages business segment

As at 20 September 2016, Podravka Inc. signed the Sale and Purchase Agreement with the company Kofola ČeskoSlovensko, one of the leading European producers and distributors of soft drinks, for the purchase of a share in the company Studenac d.o.o. After the agreed contractual preconditions had been met, the share was transferred on 20 December 2016, and special attention was paid to employees for the protection of their acquired rights arising from the Collective Bargaining Agreement of the Podravka Group for the 18-month period.

In the following period, this transaction is expected to have a positive impact on the profitability of operations in the amount of approximately HRK 5 million on the EBITDA level. After divesting of the Beverages business, the company will continue to develop the food and pharmaceuticals portfolios, directing additional resources to the internationalisation of the key brands.

Best Investor Relations in Central and Eastern Europe Award

At the great CEE Capital Markets Awards ceremony held in Warsaw on 15 September 2016, Podravka won the award for the best Investor Relations in Central and Eastern Europe. It was awarded by the expert jury consisting of international institutional investors focused on the Central and Eastern Europe region and of the representatives of regional capital markets.

The event gathered more than 200 guests, including international, institutional investors and top management of listed companies from the region of Central and Eastern Europe. The goal of CEE Capital Markets Awards is to promote the region of Central and Eastern Europe so that global investors would decide to invest in the best regional companies.

Dividend distribution to shareholders of Podravka d.d.

After several years of successfully implemented restructuring processes and achieved positive business results, prerequisites have been met for the dividend payment in the amount of HRK 7.00 per share, 10 years from the last dividend distribution. The dividend was distributed on 16 September 2016, in the total amount of HRK 48.5 million.

With EBRD and 4 business banks, Podravka signed a loan receiving the most favourable terms in the region

On 6 September 2016, a syndicated loan contract was signed between Podravka d.d., Belupo d.d. and Žito d.d. as the user and the European bank for Reconstruction and Development as the arranger (including Unicredit Slovenia) and four business banks: Privredna Banka Zagreb d.d., Raiffeisenbank Austria d.d., SKB d.d. and Erste&Steiermarkische Bank d.d as creditors.

The total value of this financial arrangement is EUR 123 million and the funds have been approved to Podravka for the six-year period with extremely favourable interest rate and currently the most favourable crediting terms in the Adria region. A portion of the loan of EUR 99 million will be used for refinancing the existing borrowings, while the remaining portion of EUR 24 million will be available for drawing in case of further capital expenditure and possible acquisitions. The refinancing amount of EUR 99 million will be repaid in 24 equal quarterly instalments. The expected savings on interest expense should amount to approximately HRK 3.5 million annually.

Changes in the Management Board of Podravka

At the session held on 15 February 2016, the Supervisory Board of Podravka Inc. approved the Agreement on termination of the mandate for Podravka Inc. Management Board Member, Mr. Miroslav Klepač according to which his mandate ended on 31 March 2016. Mr. Miroslav Klepač was appointed a Member of the Management Board of Podravka Inc. on 24 February 2012. As a Management Board Member he was specifically responsible for the finance on the Podravka Group level.

At the same session, the Supervisory Board of Podravka Inc. appointed Ms. Iva Brajević as the new Member of the Management Board of Podravka Inc. responsible for the finance on the Podravka Group level. Her mandate entered into force on 1 April 2016 and terminates upon the expiry of mandate of the Management Board as a whole. Ms. Iva Brajević has been working in Podravka Inc. as of 9 September 2013, and has worked as Director of Corporate Accounting and Tax and from September 2015 as Controlling Director. She graduated from the Faculty of Economics in Zagreb, and through the additional education has acquired licenses Head of Investor Relations and Head of development and implementation of EU-funded projects. She previously gained her business experience in several branches of international corporations in Croatia - among other, as the Finance Manager at DHL (2006 - 2012), and Unilever Finance manager for the companies in Croatia and Slovenia (1998 - 2005).

Integration of the Žito Group into the Podravka Group

In the first quarter of 2016, the plan for integration of the Žito Group into the Podravka Group was adopted, divided into 75 projects. Each project has a defined expected beginning, end, duration, responsible person and planned effects. The dynamics of the expected completion of individual projects is different, but until the end of 2018 all the projects should be completed, whereby the Žito Group would be fully integrated into the Podravka Group. The company's estimation is that in 2017 and 2018, the impact of synergies and the integration on the EBITDA level will amount to HRK 18.9 and 18.8 million, respectively, while the full effect will be visible in 2019, when the effect on the EBITDA level should amount to HRK 36.8 million. The aforementioned amounts represent additional EBITDA above the one that would be achieved without synergy and integration effects.

As at 1 April 2016, as part of the reorganisation of the business model in the Slovenian market, Žito Inc. acquired a 100% business share of the company Podravka Ltd. Ljubljana, which officially marked the beginning of the integration process. Also, as of 1 January 2016, the sale of Žito's products in all markets outside Slovenia, other than Croatian, is carried out through the existing Podravka's companies in these markets.

Innovation in the food and pharmaceuticals segments in 2016

In the **Culinary** category, one of the focuses was the renovation of **Vegeta** special seasonings, following the new positioning, design and new Vegeta's communication platform "Cook freely". Formulations have been improved in terms of naturalness, and new flavours have been added. The special seasonings range is divided into two lines: **Vegeta Grill** and **Vegeta Twist**. The special seasonings line also respects the specific characteristics of individual markets, so for Central European markets the range also includes Vegeta for meat. **Vegeta broth** has been launched to the US market - Vegeta's step forward into the market of liquid broths typical for the USA. Also, the line of Vegeta cubes in Central Europe, and for the Serbian market, was extended by new flavours. Universal Vegeta seasoning and mixtures for food preparation **Vegeta Msosi** were launched in Africa, with recipes adapted to the habits of African consumers. After renovations and launching of new cream soups at the end of 2015, Podravka soups launched an innovative approach in communication with the Millenials generation through the platform "Make a Soup. Create a Feeling." in early 2016.

In the **Creamy spreads** subcategory, **Lino lada** coconut was launched, a big hit in the Adria region. Also, **Lino breakfast cereals** got a new flavour, Lino pillows with jaffa filling. For the "back to school" autumn activity, an attractive offer from the Lino portfolio was prepared – from different promo packs to Lino cereals with Lino figurines based on the communication platform "When you grow up, be what you want".

In the **Sweets, cereals for adults, snacks and drinks** category, in addition to the focus on flagship products in key seasons of consumption, especially **Dolcela puddings**, through integrated communication with consumers, the portfolio was innovated with attractive new flavours. In the line for sweets decoration, **Dolcela fondant** is a new product. New pudding with coconut flavour was launched, as well as Gourmet panna cotta with chunks of raspberry; in the portfolio of cake mixtures, new Dolcela "Ledeni vjetar" and Muffins with pumpkin filling, as well as the new cream from pumpkin were launched. The new design of **Podravka teas** emphasises the naturalness and abundance of ingredients, also protected by the innovated aroma wrapping.

The **Mediterranean food, condiments and core food** category for the markets of Central Europe was enriched with new flavours of **Podravka passata and chopped tomato**. In the Adria region, a new segment of **Podravka pesto sauces** has been launched as well as premium **Eva** tuna and mackerel **pâtés** in elegant tubes. In the **fruit** segment, a new line of citrus Podravka marmalades has been launched: grapefruit and orange with ginger. **Podravka ajvar** has been relaunched in a new design that emphasises the naturalness of ingredients and abundance of vegetables. In the Swedish market the line was added additional new flavours.

In the **Meat products** category, **Podravka Delikates pâtés** have been launched – premium products of rich and refined flavour, aroma and texture. Podravka's culinary experts found the inspiration for creating Delikates pâtés in the flavours of Croatian continental and Mediterranean cuisines, merging the familiar ingredients into unexpected and unique combinations of flavours such as pašticada, čvarci and pumpkin seeds, kulen, asparagus and chickpea with olive oil. Podravka Delikates pâtés represent a true gourmet innovation in the pâté market. In the Western European markets, the range of Podravka pâtés has been extended, the design and formulations have been modernised, which is a presumption for entering new consumption segments.

In the range under the **Žito** brand, the innovation cycle in the category of fresh and frozen dough was completed by launching puff and filo pastry, spelt based gnocchi and buckwheat and teragon based strudels, which are very healthy, modern and trendy ingredients. Polpetas from 4 legumes have been added to the frozen polpetas range. The **Žito flours**, Slovenian market leaders, were extended with wholegrain spelt flour and a unique product in the market – flour made from ancient grains (ancient grain varieties), in line with the trends of turning to ancient grains as the alternative to wheat. **Gorenjka** chocolates are refreshed by Chef chocolate of refined flavour with 70% of cocoa. Also, a new flavour with chopped hazelnuts has been launched under the Gorenjka Mistica brand, which is a unique recipe in the Slovenian market. The most popular **bread** in the range – Stoletni, made with 100% spelt flour was enriched with chia seeds and black sesame seeds. Due to its rich composition, it is an excellent source of dietary fibres. The **Zlato polje** pasta programme in the segment of soup pastas has been added two new products of special pasta: soup fidelini and soup stars made from wholegrain spelt flour. The spelt range is supplemented also in the rusk category with a spelt rusk, offering the consumers a healthy, tasty and crunchy experience. The candy category has been added unique gummy candies Friends, characterised by two fruit flavours in one candy, with attractive shapes and without artificial colours and aromas. The important anniversary – 140 years of the **Šumi** brand was celebrated by a limited edition retro box containing assorted candies from the rich history of the Šumi brand - Visoki C, jelly candies and Šššum apple.

In the **prescription drugs category**, in 2016, Belupo extended its cardio portfolio with another drug from the group of Calcium channel blockers – derivate of dihydropyridine. This is lacidipine and it comes to the market under the generic name **Lacidipin Belupo**. Lacidipin Belupo is used in treating hypertension in monotherapy or in combination with other antihypertensives such as beta blockers, diuretics or ACE-inhibitors. The therapeutic effect of these Belupo drugs is equal, however, lacidipine has a better effect on diastolic pressure and less frequent side effects (peripheral edema).

Beloxim 500 mg film coated tablets is the new antibiotic in Belupo in 2016 from the group of the second-generation cephalosporins, with the generic name cefuroxime. Cefuroxime is used in treating acute streptococcal tonsillitis and pharyngitis, acute bacterial sinusitis, acute middle ear infection (otitis media), acute exacerbation of chronic bronchitis, cystitis, pyelonephritis, uncomplicated skin and soft tissue infections and in treating early stages of Lyme disease. Until now, our portfolio included only a representative of the first-generation cephalosporins – cefalexin, which is available in the market for a number of years under the generic name Cefaleksin® Belupo.

In 2016, two new products were launched to the Russian market. **Amofin** medical nail polish is intended for treating fungal nail infections. **Monlast** is the antagonist of leukotriene receptors that blocks substances called leukotrienes. Leukotrienes cause contractions and swelling of air passages in lungs and allergy symptoms, and by blocking them Monlast facilitates the symptoms of asthma, it helps in the control of asthma and facilitates the symptoms of seasonal allergies (known as hay fever or seasonal allergic rhinitis).

In the third quarter of 2016, Belupo launched to the Croatian market a new product from the RX programme under the protected name **Nutrixa** and thereby entered the new area – **Enteral nutrition**. Nutrixa is liquid food rich in calories and proteins with added fibres for a complete, balanced diet. This is food for special medical purposes, intended for the dietary needs of patients with malnutrition or risk of its occurrence. It may be used as the sole food source or as food supplement, and is provided only under medical supervision. By developing the new portfolio of products from the enteral nutrition area, the synergy potential between the Pharmaceuticals and Food is achieved, which helps in realisation of Belupo's strategic goals, crucial for the growth and development of the company's operations.

In 2016, the **non-prescription programme category** has been extended by **Fersan junior** liquid food supplement. The product contains liposomal iron, and is intended to naturally supplement iron. Liposome is a hollow microsphere, efficient and innovative carrier for drugs, minerals, vitamins and other active substances. The liposome membrane structure matches the structure of human cell membranes which facilitates the fusion of liposome with the membrane and improves the absorption of substances included in the liposome. Ferric pyrophosphate in Fersan junior is located within the liposomal structure. Due to the liposomal technology, the absorption and bioavailability is increased 3.5 times compared to iron that is not liposomal. Fersan junior may not be used by children under the age of 3 years.

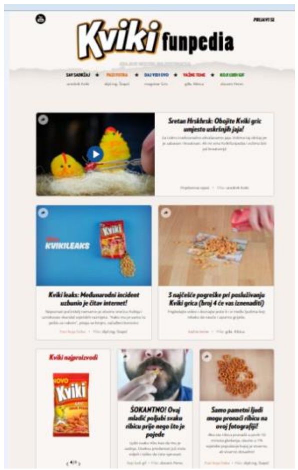
In 2016, **RojazolDerm** cream has also been launched to the Croatian market. The cream is from the pharmacotherapy group of antimycotics for local use, derivates of imidazole and triazole. RojazolDerm cream is intended for treating skin infections caused by fungi. The infections may attack hands and feet (including "Athlete's foot"), torso and crotch (including the area of skin around the

genitals) and ears and vertex.

Belupo launched three new products to the market of the Czech Republic: **Belmiran dan** tablets for the relaxation of the body, **Belmiran san** tablets that contribute to shortening of the time needed to fall asleep and normal sleep and **Urosal lady** herbal product, created especially for women, intended for preventing and mitigating problems with urinary tract such as frequent and painful urination accompanied with a burning sensation

Digital innovation in 2016

In 2016, we have continued with the rapid growth in the number of digital platforms. Altogether, we have redesigned 9 web pages, created 7 new pages and opened 6 new profiles on social networks in order to get closer to new, young consumers. The Dolcela mobile application update offers many additional interesting functions.



The greatest shift in marketing activities is noticeable in visual communications. More interesting, attractive and compelling features to which young consumers have positive reactions are being selected. Projects like **Kvikifunpedia, Čokolinologija, Za fine guze, Kralj latino popa za kraljicu slastica, Dođi sebi**, etc., stand out. Only a few months after the launch, Kvikifunpedia won **the professionals' award "SoMo Borac"** during Weekend Media Festival.

The importance of mobile applications is increasing, so we decided to follow this trend by launching **Viber stickers** for Lino and Coolinarika. In the period of only a couple of months, over **7.5 million messages with our stickers** were sent.

The best evidence of following global trends is **making Coolinarika video recipes** which are distributed on many platforms. More than **200 video recipes** were made which have been seen by **31 million** consumers on Facebook, Instagram, Youtube, web pages of Coolinarika, Vegeta and Podravka, and on 158 citylights in all major shopping centres and public places across Croatia. The good practice has been adopted by 6 markets, and this number is continuously growing.

The most significant online project is certainly Coolinarika, which is gaining new users on a daily basis. With over **106 million page views**, it is definitely among one of the most significant not only web pages, but also social networks in the region.

Overview of sales revenues in 2016

Note: The consolidation of the income statement of the Žito Group into the Podravka Group began as of 1 October 2015. As a result, sales revenues of the Strategic Business Area Food and the Podravka Group for 2016 are not fully comparable to 2015. For comparison purposes, an overview of a pro-forma result in 2015 is provided. Pro-forma presentation shows business results that would have been recorded if the Žito Group had been consolidated from the beginning of 2015.

Sales revenues by Strategic Business Area in 2016

Sales revenues[5] by Strategic Business Area

(in HRK millions)	2016	2015 pro-forma	2015	2016/ 2015 pro-forma	2016/2015
SBA Food	**3,370.3**	**3,413.4**	**2,821.8**	**(1.3%)**	**19.4%**
Own brands	*2,883.7*	*2,900.0*	*2,478.5*	*(0.6%)*	*16.3%*
Other sales	*486.6*	*513.4*	*343.3*	*(5.2%)*	*41.8%*
SBA Pharma	**815.2**	**805.0**	**805.0**	**1.3%**	**1.3%**
Own brands	*681.8*	*646.4*	*646.4*	*5.5%*	*5.5%*
Other sales	*133.5*	*158.6*	*158.6*	*(15.8%)*	*(15.8%)*
Podravka Group	**4,185.5**	**4,218.4**	**3,626.8**	**(0.8%)**	**15.4%**
Own brands	*3,565.4*	*3,546.4*	*3,124.9*	*0.5%*	*14.1%*
Other sales	*620.1*	*672.0*	*501.9*	*(7.7%)*	*23.6%*

Strategic Business Area Food (2016 compared to pro-forma 2015):

- **Own brands** recorded a 0.6% lower sales due to significant negative impacts of foreign exchange differences and negative trends in the movement of key subcategories in the Adria region. If the effect of foreign exchange (FX) differences is excluded, own brands record a 0.6% sales growth,
- **Other sales** recorded 5.2% lower sales, primarily as a result of a decreased scope of cooperation in the area of private labels. If the effect of FX differences is excluded, other sales record 4.3% lower sales,
- Consequently, the **Food segment** recorded 1.3% lower sales. If the effect of FX differences is excluded, the Food segment records 0.2% lower sales.

[5]2015 reclassified, see Notes to the financial statements.

Strategic Business Area Pharmaceuticals (2016 compared to 2015):

- **Own brands** recorded a 5.5% increase in sales, primarily due to the expansion of the business cooperation in the Russian market. If the effect of FX differences is excluded, own brands record a 7.9% increase in sales,
- **Other sales** are 15.8% lower as a result of the changed business policy in the market of Bosnia and Herzegovina, with a stronger focus on own brands. If the effect of FX differences is excluded, other sales record 15.3% lower sales,
- Consequently, the **Pharmaceuticals segment** recorded 1.3% higher sales. If the effect of FX differences is excluded, the Pharmaceuticals segment records a 3.4% increase in sales.

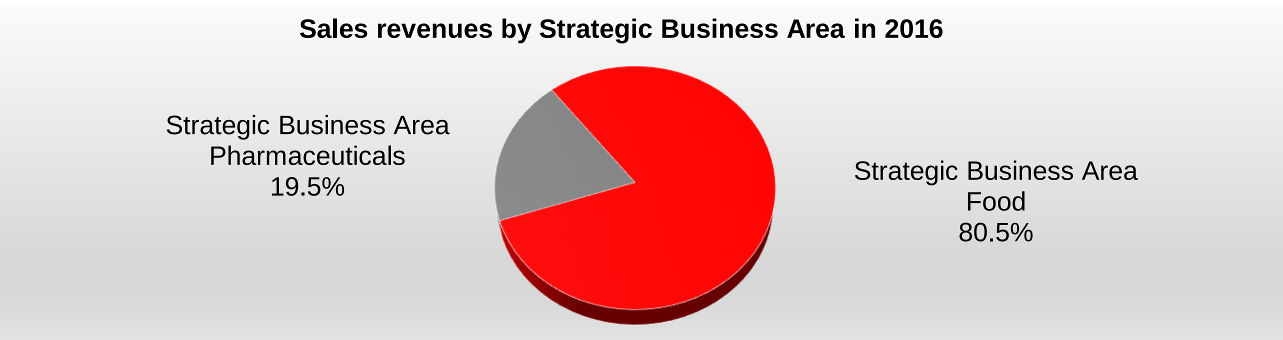
Podravka Group (2016 compared to pro-forma 2015):

- **Own brands** of the Podravka Group recorded 0.5% higher sales in the observed period. If the effect of FX differences is excluded, own brands record a 1.9% increase in sales.
- The revenues from **other sales** are 7.7% lower than in the comparative period. If the effect of FX differences is excluded, other sales record 6.9% lower sales,
- Consequently, sales of the **Podravka Group** are 0.8% lower in the observed period. If the effect of FX differences is excluded, the Podravka Group records a 0.5% sales growth.

Net effect of currency exchange rates (FX differences) on sales by segments in 2016:

(in HRK millions)	Own brands	Other sales	Total
Food	(32.9)	(4.7)	(37.6)
Pharmaceuticals	(15.9)	(0.9)	(16.8)
Group	(48.8)	(5.6)	(54.4)

- The Podravka Group aims to present the movements in sales excluding the effect of FX differences, i.e. to show what sales would have been if FX rates had remained at the same levels as in the comparative period,
- The most significant negative effect is recorded by the Russian ruble (HRK -21.1 million), the Euro (HRK -12.9 million) and the Polish zloty (HRK -7.4 million), while there were no positive FX effects.



Sales revenues by category in 2016

Sales revenues by category[6]					
(in HRK millions)	**2016**	**2015 pro-forma**	**2015**	**2016/ 2015 pro-forma**	**2016/2015**
Culinary	889.3	884.3	867.2	0.6%	2.5%
Sweets, cereals for adults, snacks and drinks	343.9	348.9	287.0	(1.4%)	19.8%
Lino world	242.3	240.8	240.8	0.6%	0.6%
Mediterranean food, condiments and core food	707.1	711.8	637.1	(0.7%)	11.0%
Meat programme	273.2	290.8	290.8	(6.1%)	(6.1%)
Bakery and mill products	427.9	423.4	155.6	1.1%	175.0%
Prescription drugs	587.3	556.3	556.3	5.6%	5.6%
Non-prescription programme	94.4	90.1	90.1	4.9%	4.9%
Other sales	620.1	672.0	501.9	(7.7%)	23.6%
Podravka Group	**4,185.5**	**4,218.4**	**3,626.8**	**(0.8%)**	**15.4%**

Pro-forma sales revenues by category (2016 compared to pro-forma 2015):

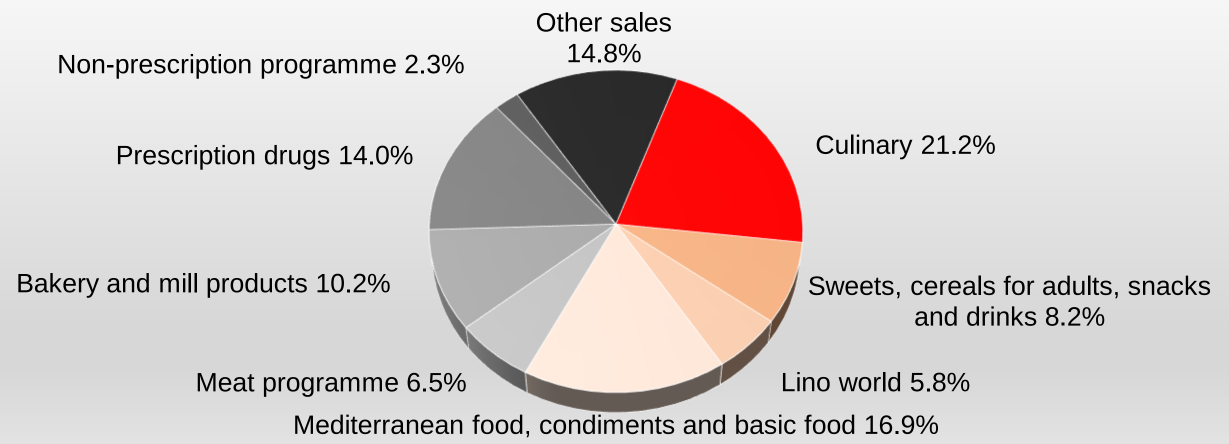
- The **Culinary category** recorded an increase in sales of 0.6%, primarily due to the increase in sales of the Seasonings subcategory and the increase in sales of Soups. The Seasonings subcategory recorded the most significant sales growth in Russia as a result of the successful implementation of the new business model, resulting in direct contracts with a number of leading retail chains in Russia and the extension of the existing product range. Soups recorded the most significant growth in the Adria region following stronger selling and marketing activities. This managed to annul the pressures on sales in the Adria region due to the decrease in the overall market of some key Culinary subcategories. If the effect of FX differences is excluded, the category records a 2.3% sales growth,
- The **Sweets, cereals for adults, snacks and drinks category** recorded 1.4% lower sales, as a consequence, among other things, of lower results of the Beverages subcategory due to decreased intensity of support to this range related to the decision on selling this business segment, but also due to competitors' activities. If the FX effect is excluded, the category records 0.9% lower sales,
- The increase in sales of the **Lino world category** of 0.6% is primarily impacted by the increase in sales of Creamy spreads as a result of activities and innovation on the Lino lada brand in the Croatian market, and the introduction of baby purees range that were not present in the comparative period. If the effect of FX differences is excluded, the category records 1.0% higher sales,
- The **Mediterranean food, condiments and core food category** recorded 0.7% lower sales, primarily as a result of the decrease in the overall market of some subcategories and the pressure of

[6]2015 reclassified, see Notes to the financial statements.
In Q1 2016, categories of the Food segment were reorganized, see section "Additional tables for 2016".

competitors and PL-s in the Adria region. This was partly compensated by the increase in sales of Frozen vegetables in the market of Russia following the successful implementation of the new business model and the start of the Food Solution[7] project in the Croatian market. If the effect of FX differences is excluded, the category records a 0.4% increase in sales,

- The **Meat programme category** recorded 6.1% lower sales as a result, among other things, of restructuring the Sausage programme. The restructuring put the focus on support to certain parts of the programme, which currently reflects on the amount of revenues compared to the comparative period, but in the long term it should result in keeping only those with the potential for growth and expected profitability rates. If the effect of FX differences is excluded, the category records a 5.7% sales decrease,
- The **Bakery and mill products category** records 1.1% higher sales due to increased activities in the Slovenian market and extended distribution and product range in European markets. If the effect of FX differences is excluded, the category records a 2.5% increase in sales,
- The **Prescription drugs category** recorded a 5.6% sales growth following the further expansion of business cooperation on the Russian market and the expansion of Heart and blood vessels product range on the market of Bosnia and Herzegovina. The negative impact of the decrease in prices of prescription drugs by the Croatian Health Insurance Fund amounted to estimated HRK 3.8 million. If the effect of FX differences is excluded, the category records a 8.1% increase in sales,
- Sales of the **Non-prescription programme category** grew by 4.9%, primarily as a result of the increase in sales of the OTC subcategory in the market of Russia following the expansion of business cooperation, and in the market of Slovenia due to extended product range. If the effect of FX differences is excluded, the category records a 6.7% increase in sales,
- The **Other sales category** recorded 7.7% lower sales, due to the decreased scope of cooperation in the area of private labels in the Food segment and the changed business policy of the Pharmaceuticals segment, with a stronger focus on own brands. If the effect of FX differences is excluded, the category records 6.9% lower sales.

Sales revenues by category in 2016



[7]Due to the current immateriality, Food Solution is not set as a separate category and will be temporarily monitored within the Mediterranean food, condiments and core food category.

Sales revenues by region in 2016

Sales revenues[8] by Regions					
(in HRK millions)	**2016**	**2015 pro-forma**	**2015**	**2016/ 2015 pro-forma**	**2016/2015**
Adria region	**2,997.5**	**3,096.9**	**2,590.8**	**(3.2%)**	**15.7%**
Food	*2,375.8*	*2,463.6*	*1,957.5*	*(3.6%)*	*21.4%*
Pharmaceuticals	*621.7*	*633.3*	*633.3*	*(1.8%)*	*(1.8%)*
Europe region	**778.8**	**781.4**	**703.3**	**(0.3%)**	**10.7%**
Food	*727.6*	*729.0*	*650.9*	*(0.2%)*	*11.8%*
Pharmaceuticals	*51.1*	*52.4*	*52.4*	*(2.5%)*	*(2.5%)*
Russia, CIS and Baltic region	**262.1**	**196.1**	**193.1**	**33.7%**	**35.8%**
Food	*128.2*	*85.2*	*82.1*	*50.6%*	*56.1%*
Pharmaceuticals	*133.8*	*110.9*	*110.9*	*20.7%*	*20.7%*
New Markets region	**147.2**	**144.0**	**139.7**	**2.2%**	**5.4%**
Food	*138.7*	*135.6*	*131.3*	*2.3%*	*5.6%*
Pharmaceuticals	*8.5*	*8.4*	*8.4*	*1.6%*	*1.6%*
Podravka Group	**4,185.5**	**4,218.4**	**3,626.8**	**(0.8%)**	**15.4%**

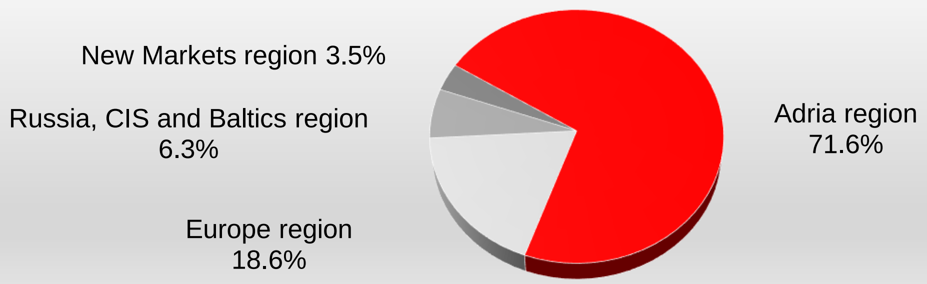
Pro-forma sales revenues by region (2016 compared to pro-forma 2015):

- The **Adria region** recorded 3.2% lower sales, while if the effect of FX differences is excluded, sales are 2.5% lower. In the Food segment, the main negative impacts on sales were as follows: (i) the decrease in the overall market of some key subcategories, (ii) the restructuring of the Meat programme, reflected on the level of revenues compared to the comparative period, (iii) lower results of the Beverages subcategory due to decreased support to this range related to the decision on selling this business segment, and (iv) decreased scope of cooperation in the area of private labels. Trends in the entire region indicate the strengthening of private labels that force branded producers to adapt prices, leading to the decrease in the value of entire market categories. According to the research conducted by Nielsen, 52% of Podravka's strategic subcategories in the Adria region recorded value drops in 2016 compared to the comparative period, while Podravka's shares are stable or increasing in 88% of strategic subcategories. The company aims to compensate for the decrease in the overall market of some subcategories by innovation of new products or entering new categories such as Food Solution. However, it is evident that the region offers a highly limited potential for organic growth in the Food segment. Total revenues of the Pharmaceuticals segment were negatively impacted by the decrease in sales of trade goods, resulting from the focus on own brands in the market of Bosnia and Herzegovina, while own brands recorded a sales growth,

[8] 2015 reclassified, see Notes to the financial statements.

- The sales of the **Europe region** were 0.3% lower than in the comparative period, while if the effect of FX differences is excluded, they are 1.0% higher. Western Europe recorded a growth in revenues of the Food segment, primarily due to the growth in the Universal seasonings subcategory in Germany as a result of targeted selling and marketing activities and the expansion of the Žito product range distribution. Thereby, Western Europe partly compensated for the decrease in revenues of Central Europe that were in 2016 marked by the decrease in the overall market of the Universal seasonings subcategory, whereby the company managed to retain its market shares. Sales of the Pharmaceuticals segment were negatively impacted by the results in the Polish market due to activities of the existing and new competitors,
- The **Russia, CIS and Baltic region** recorded 33.7% higher sales, with equal contributions by Food and Pharmaceuticals segments. The Food segment recorded an above-average growth rate due to the successful implementation of the new business model that resulted, among other things, in direct contracts with a number of leading retail chains in Russia and the extension of the existing product range. The Pharmaceuticals segment in the observed period recorded expanded business cooperation in the market of Russia. Excluding the effect of FX differences, the region would record a 44.4% sales growth,
- The sales of the **New Markets region** grew by 2.2%, while if the effect of FX differences is excluded, the region records a 3.3% sales growth. The sales growth is partly a result of opening new markets at the beginning of 2015, but also of the expansion of the distribution and the Žito product range. In 2016, newly-opened markets met all prerequisites for the normal commencement of operations and from 2017 their visible contribution to revenues is expected.

Sales revenues by region in 2016



Profitability in 2016

Note: The consolidation of the income statement of the Žito Group into the Podravka Group began as of 1 October 2015. As a result, the reported income statements of the Strategic Business Area Food and the Podravka Group for 2016 are not fully comparable to 2015. For comparison purposes, an overview of a pro-forma result in 2015 is provided. Pro-forma presentation shows business results that would have been recorded if the Žito Group had been consolidated from the beginning of 2015, and accordingly, without the consolidation effect (gain on a bargain purchase) that is included in the reported results.

Profitability of the Strategic Business Area Food in 2016

Profitability of the Strategic Business Area Food

(in HRK millions)	2016	2015 pro-forma	2015	2016/ 2015 pro-forma	2016/2015
Sales revenue[9]	3,370.3	3,413.4	2,821.8	(1.3%)	19.4%
Gross profit	1,090.8	1,095.6	961.1	(0.4%)	13.5%
EBITDA*	317.4	297.9	369.7	6.5%	(14.2%)
EBIT	158.2	137.1	237.5	15.4%	(33.4%)
Net profit after MI	111.3	113.8	210.0	(2.2%)	(47.0%)
Gross margin	32.4%	32.1%	34.1%	+27 bb	-170 bb
EBITDA margin	9.4%	8.7%	13.1%	+69 bb	-369 bb
EBIT margin	4.7%	4.0%	8.4%	+68 bb	-372 bb
Net margin after MI	3.3%	3.3%	7.4%	-3 bb	-414 bb

*EBITDA is calculated in a way that EBIT was increased by the depreciation and amortization and impairment of intangible and non-current tangible assets.

Profitability of the Strategic Business Area Food (2016 compared to pro-forma 2015):

- In 2016, the Food segment recorded a slight decrease in **gross profit** impacted, among other things, by HRK 37.6 million of foreign exchange losses. At the same time, gross margin recorded a growth of 27 basis points due to the decrease in prices of certain raw materials, which led to the decrease in cost of goods sold of 1.6%,
- In 2016, **operating profit (EBIT)** recorded a growth of 15.4% compared to the comparative period. In 2016, EBIT was under the one-off effect of HRK 3.4 million of expenses related to the process of selling the Beverages business, while in 2015 it was under one-off effects of: (i) HRK 24.8 million of revenues from the consolidation of Mirna[10], (ii) costs of severance payments of HRK 33.3 million, and

[9]2015 reclassified, see Notes to the financial statements.
[10]At consolidation of Mirna Inc., the carrying value of non-current assets was adjusted with the estimated market value in accordance with accounting standards. The value adjustment resulted in an increase in the carrying amount of non-current assets, and recorded gain on a bargain purchase in other income in the amount of HRK 24.8 million.

(iii) costs related to the acquisition of Žito of HRK 9.4 million. If these one-off effects are excluded from both years, the growth in operating profit of 4.2% was achieved, positively impacted, among other things, by lower selling and distribution expenses and lower marketing expenses,

- In addition to the effects mentioned above, in 2015, **net profit after minority interests** was under one-off effects of costs related to the ESOP programme of HRK 6.7 million and Danica's[11] tax losses carried forward of HRK 11.6 million. If all the above mentioned one-off effects are excluded from both years, in 2016 a 9.6% lower net profit after minority interests was recorded. Lower net profit is a result, in addition to the mentioned above, of higher tax liability in 2016 compared to 2015, in which the company utilised tax losses carried forward by subsidiaries.

[11] A subsidiary of Podravka Inc. for the production of meat products, merged with Podravka Inc. as of 1 October 2015.

Profitability of the Strategic Business Area Pharmaceuticals in 2016

Profitability of the Strategic Business Area Pharmaceuticals			
(in HRK millions)	**2016**	**2015**	**% change**
Sales revenue[12]	815.2	805.0	1.3%
Gross profit	428.1	424.0	1.0%
EBITDA*	152.3	98.9	54.0%
EBIT	110.7	47.7	132.3%
Net profit after MI	71.1	187.3	(62.0%)
Gross margin	52.5%	52.7%	-15 bb
EBITDA margin	18.7%	12.3%	+640 bb
EBIT margin	13.6%	5.9%	+766 bb
Net margin after MI	8.7%	23.3%	-1454 bb

*EBITDA is calculated in a way that EBIT was increased by the depreciation and amortization and impairment of intangible and non-current tangible assets.

Profitability of the Strategic Business Area Pharmaceuticals (2016 compared to 2015):

- In 2016, the Pharmaceuticals segment recorded an increase in **gross profit** of 1.0%, while gross margin recorded a slight decrease due to, among other things, 1.6% higher cost of goods sold. Higher cost of goods sold is primarily a result of an increase in the number of employees in 2016 as the preparation for the commencement of production in new factories,
- In 2016, **operating profit (EBIT)** grew by significant 132.3% compared to 2015, which was impacted by costs of severance payments of HRK 7.8 million. Without the impact of severance payments costs, EBIT recorded a 99.6% growth, positively impacted, in addition to the previously mentioned factors, by 13.9% lower total operating expenses (excluding the cost of goods sold and the mentioned effect of severance payments costs). Lower operating expenses were primarily impacted by foreign exchange gains on trade receivables and payables u 2016, which were negative in 2015,
- In 2016, **net profit after minority interests** amounted to HRK 71.1 million, while in 2015 it amounted to HRK 187.3 million. It should be noted that 2015 was significantly impacted by deferred tax income of HRK 163.7 million[13], ESOP costs of HRK 1.3 million and the previously mentioned severance payments costs. Without all the above one-off effects, net profit after minority interests in 2016 would record a 117.8% growth.

[12] 2015 reclassified, see Notes to the financial statements.
[13] The recorded tax income is related to incentives received for the construction of the new Belupo factory.

Profitability of the Podravka Group in 2016

Profitability of the Podravka Group					
(in HRK millions)	**2016**	**2015 pro-forma**	**2015**	**2016/ 2015 pro-forma**	**2016/2015**
Sales revenues[14]	4,185.5	4,218.4	3,626.8	(0.8%)	15.4%
Gross profit	1,518.9	1,519.6	1,385.1	(0.0%)	9.7%
EBITDA*	469.6	396.8	468.6	18.4%	0.2%
EBIT	268.9	184.8	285.2	45.5%	(5.7%)
Net profit after MI	182.4	301.1	397.3	(39.4%)	(54.1%)
Gross margin	36.3%	36.0%	38.2%	+27 bb	-190 bb
EBITDA margin	11.2%	9.4%	12.9%	+181 bb	-170 bb
EBIT margin	6.4%	4.4%	7.9%	+204 bb	-144 bb
Net margin after MI	4.4%	7.1%	11.0%	-278 bb	-660 bb

*EBITDA is calculated in a way that EBIT was increased by the depreciation and amortization and impairment of intangible and non-current tangible assets.

Profitability of the Podravka Group (2016 compared to pro-forma 2015):

- In 2016, the Podravka Group recorded **gross profit** at the same level as in the comparative period impacted, among other things, by HRK 54.4 million of foreign exchange losses. At the same time, gross margin recorded a growth of 27 basis points due to the decrease in prices of certain raw materials, which led to the decrease in cost of goods sold of 1.2%,
- **Operating profit (EBIT)** of the Podravka Group in 2016 recorded a growth of 45.5% compared to the comparative period. In 2016, EBIT was under the one-off effect of HRK 3.4 million of expenses related to the process of selling the Beverages business, while in 2015 it was under one-off effects of: (i) HRK 24.8 million of revenues from the consolidation of Mirna, (ii) costs of severance payments of HRK 41.1 million, and (iii) costs related to the acquisition of Žito of HRK 9.4 million. If these one-off effects are excluded from both years, the growth in operating profit of 29.3% was achieved, positively impacted, among other things, by lower selling and distribution expenses, lower marketing expenses and foreign exchange gains on trade receivables and payables in 2016,
- **Net profit after minority interests** was, in addition to the previously mentioned factors, in 2015 impacted by one-off effects of: (i) costs related to the ESOP programme of HRK 8.0 million, (ii) Danica's tax losses carried forward of HRK 11.6 million, and (iii) deferred tax income of Belupo of HRK 163.7 million. If all the above mentioned one-off effects are excluded from both years, net profit after minority interests in 2016 records a 16.5% growth.

[14] 2015 reclassified, see Notes to the financial statements.

Key characteristics of the pro-forma income statement in 2016

Note: The consolidation of the income statement of the Žito Group into the Podravka Group began as of 1 October 2015. Consequently, the reported income statement of the Podravka Group in 2016 is not fully comparable to 2015. For the purpose of a transparent operations presentation, the income statement table in the “Consolidated financial statements in 2016” section presents the reported income statement of the Podravka Group, while the remaining portion of this section presents the income statement on the pro-forma level, as if the Žito Group had been consolidated since the beginning of 2015.

Other income and expenses, net

Other income and expenses include, among other, foreign exchange differences on trade receivables and payables. In 2016, this item amounted to positive HRK 26.5 million, while in 2015, it amounted to negative HRK 11.0 million. Foreign exchange differences on trade receivables and trade payables in 2016 amounted to positive HRK 18.5 million, while in 2015 they amounted to negative HRK 28.4 million. It should also be noted that the comparative period comprised the positive effect arising from the consolidation of Mirna Inc. in the amount of HRK 24.8 million.

Cost of goods sold

In 2016, cost of goods sold is 1.2% lower than in 2015, primarily due to a decrease in prices of certain raw materials.

General and administrative expenses

In the observed period, general and administrative expenses were 5.8% lower than in the comparative period which was burdened with costs of severance payments of HRK 41.1 million and costs related to the acquisition and integration of Žito in the amount of HRK 9.4 million. If the effect of severance payments in 2016 and the mentioned impacts in 2015 are excluded, general and administrative expenses record a growth of 6.9% due to, among other factors, higher expenses related to opening new markets that were not present in the comparative period.

Selling and distribution costs

Selling and distribution costs in the observed period are 3.5% lower than in the comparative period, and the positive impact is, among other things, attributed to the synergy effects of merging Danica at the beginning of the last quarter of 2015.

Marketing expenses

In the observed period, marketing expenses are 1.6% lower, primarily due to decreased marketing activities in the Pharmaceuticals segment in the markets of the CIS due to deteriorating business climate and the change of distributor in Western Europe in mid 2016, resulting in a temporary suspension of planned marketing activities in the second half of the year.

Net finance costs

In 2016, net finance costs were 32.0% lower than in the comparative period which was burdened by one-off costs related to the ESOP programme of HRK 8.0 million. If the effect of these one-off costs is excluded, net finance costs are 17.0% lower, as a result of lower interest expense on borrowings and higher foreign exchange gains on borrowings.

Income tax

In 2015, income tax of the Podravka Group was positively impacted by one-off effects of Danica's tax losses carried forward of HRK 11.6 million and deferred tax income of Belupo of HRK 163.7 million, related to the incentives received for the construction of the new pharmaceutical factory. Without the mentioned one-off effects, income tax in 2016 is 2.6x higher than in the comparative period as the company in 2015 utilised tax losses carried forward by subsidiaries. The effective tax rate in 2016 was 21.4%, while in 2015 without the mentioned effects of Danica and Belupo it was 10.2%.

Key characteristics of the balance sheet as at 31 December 2016

Property, plant and equipment

As at 31 December 2016, property, plant and equipment of the Podravka Group were 18.9% higher compared to 31 December 2015 as a result of activities related to the construction of the new Belupo factory.

Inventories

Inventories of the Podravka Group as at 31 December 2016 were slightly lower than on 31 December 2015, partly as a result of lower costs of certain raw materials and supplies.

Trade and other receivables

As at 31 December 2016, trade and other receivables of the Podravka Group were 1.5% higher than as at 31 December 2015. Trade receivables are 2.8% higher due to, among other things, slower dynamics collection of receivables in the Pharmaceuticals segment at the end of 2016 compared to the end of 2015.

Cash and cash equivalents

Cash and cash equivalents of the Podravka Group at the end of the observed period are 15.7% higher compared to the end of 2015, as explained in the "Key characteristics of the cash flow statement in 2016" section.

Non-controlling interests

Non-controlling interests in the Podravka Group as at 31 December 2016 were 27.3% lower than as at 31 December 2015 following the squeeze-out of minority shareholders of the Žito Group in the first quarter of 2016.

Long-term borrowings

Borrowings of the Podravka Group within non-current liabilities as at 31 December 2016 were 32.7% higher compared to the end of 2015. This is consequence of refinancing of borrowings, whereby a portion of short-term borrowings was transferred to the long-term borrowings position, but also a consequence of additional borrowings related to capital expenditures, mostly to new pharmaceutical factory.

Trade and other payables

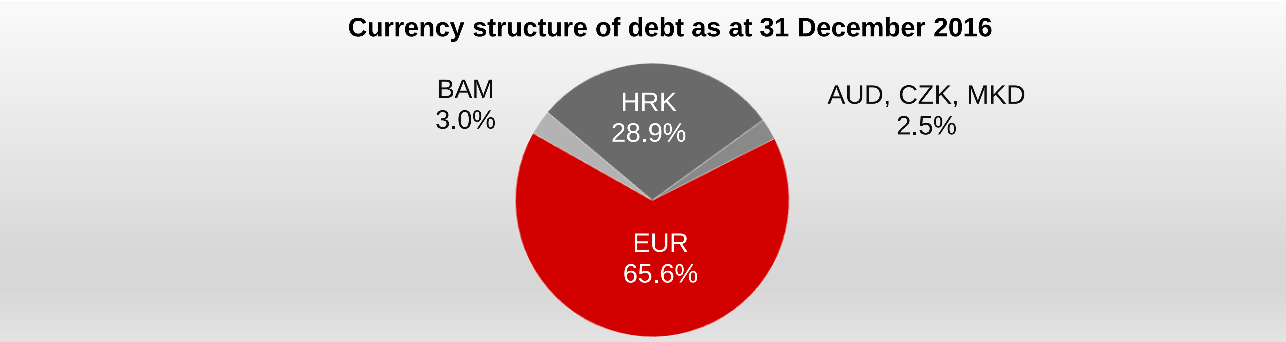
Trade and other payables of the Podravka Group record an increase of 3.5% compared to the same period of the previous year, while trade payables were at the same level as in the comparative period.

Short-term borrowings

Borrowings of the Podravka Group within current liabilities as at 31 December 2016 were 18.0% lower than as at 31 December 2015, as a consequence, among other things, of refinancing of borrowings, whereby a portion of short-term borrowings was transferred to the long-term borrowings position.

Indebtedness

As at 31 December 2016, the total debt of the Podravka Group related to borrowings and other interest-bearing financial liabilities was HRK 1,379,350 thousand, of which HRK 998,535 thousand relates to long-term borrowings, HRK 376,619 thousand to short-term borrowings, and HRK 4,196 thousand to swap and forward contract liabilities. The **average weighted cost of debt** on all the stated liabilities as at 31 December 2016 was 2.5%.



Analysing the debt currency structure, the highest exposure, of 65.6% was toward the Euro, while 28.9% of the debt was in the domestic currency. 3.0% of the debt was in the Bosnia and Herzegovina mark, while the remainder of 2.5% relates to the Australian dollar (AUD), Czech koruna (CZK) and Macedonian denar (MKD).

*(in HRK thousands)**	2016	2015	% change
Net debt	1,041,739	922,380	12.9%
Interest expense	31,216	36,926	(15.5%)
Net debt / EBITDA	2.2	2.0	12.7%
EBITDA / Interest expense	15.0	12.7	18.6%
Equity to total assets ratio[15]	55.4%	56.5%	-109 bb

***Note:** all indicators are calculated in a way that income statement items are calculated at the level of the last 12 months, while balance sheet items are taken at the period end.

The increase in net debt as at 31 December 2016 compared to 31 December 2015 is a consequence of the increased indebtedness, primarily due to borrowings for the construction of the new pharmaceutical factory. Consequently, the net debt to EBITDA ratio increased. Lower interest expense with the unchanged EBITDA level led to the increase in the interest coverage ratio.

Key characteristics of the cash flow statement in 2016

(in HRK millions)	2016	2015	Δ
Net cash flow from operating activities	476.7	274.2	202.5
Net cash flow from investing activities	(358.9)	(675.8)	316.9
Net cash flow from financing activities	(72.1)	473.0	(545.1)
Net increase / (decrease) of cash and cash equivalents	45.7	71.4	(25.7)

Net cash flow from operating activities

In 2016, net cash flow from operating activities recorded a significant increase compared to the comparative period impacted, among other things, by the consolidation of the Žito Group. In 2015, cash flows of the Žito Group were consolidated into the Podravka Group in the fourth quarter, while their 12-month effect is recorded in 2016. In addition, the sale of the Beverages segment in the last quarter of 2016 positively impacted the decrease in inventories, while positive impact also came from lower tax and interest expenditures.

Net cash flow from investing activities

Net cash flow from investing activities in the period under consideration amounted to negative HRK 358.9 million. This is primarily the result of capital expenditure amounting to HRK 437.1 million. The most significant **capital expenditure** in 2016 was related to:

[15] 2015 restated, see Notes to the financial statements.

- New factory for semi-solid and liquid drugs – continuation of activities from 2015. The realisation of this strategic investment will increase the existing production capacities, which will meet the increasing market needs and ensure competitiveness and market position of Belupo,
- Expansion of the Vegeta factory warehouse – continuation of activities from 2015. The investment relates to the expansion of the existing automatic warehouse and load and expedite place of finished goods, resulting in an increase in storage and dynamic capacities of the existing warehouse in Koprivnica and significant savings in the logistics expenses.
- Food Solution Project – the investment relates to the construction of the central kitchen and adaptation of the cafeteria in the administration building. The project will enable the extension of the product range intended for the gastro segment and earning additional revenues,
- Modernisation of the sterilised vegetables line – the investment of the Kalnik factory that ensures the continuity of production, increases the efficiency, decreases the inventories losses and increases the safety of production and quality of finished products,
- Factory of seasonings in Tanzania – continuation of activities started in 2015. The investment relates to the construction of the production plant for food seasonings in Tanzania. The investment will enable the expansion of production capacities and operations to international markets.

In 2017, **capital expenditure is expected** to be at a level of HRK 250 – 300 million, in 2018 at a level of HRK 150 – 200 million and in 2019 at a level of HRK 250 – 300 million.

Net cash flow from financing activities

In 2016, net cash flow from financing activities amounted to negative HRK 72.1 million due to, among other things, dividend distribution in the amount of HRK 48.5 million.

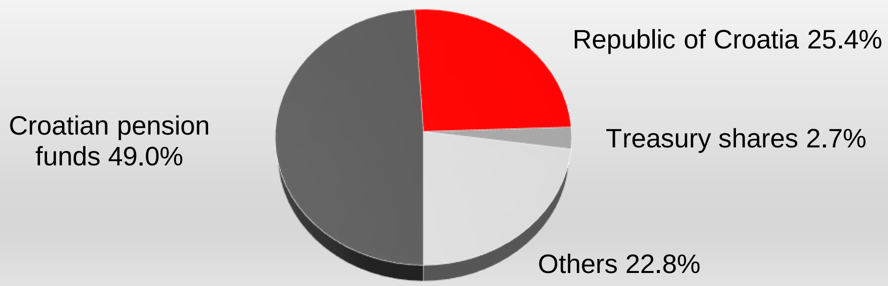
Share in 2016

List of top 10 shareholders as at 31 December 2016

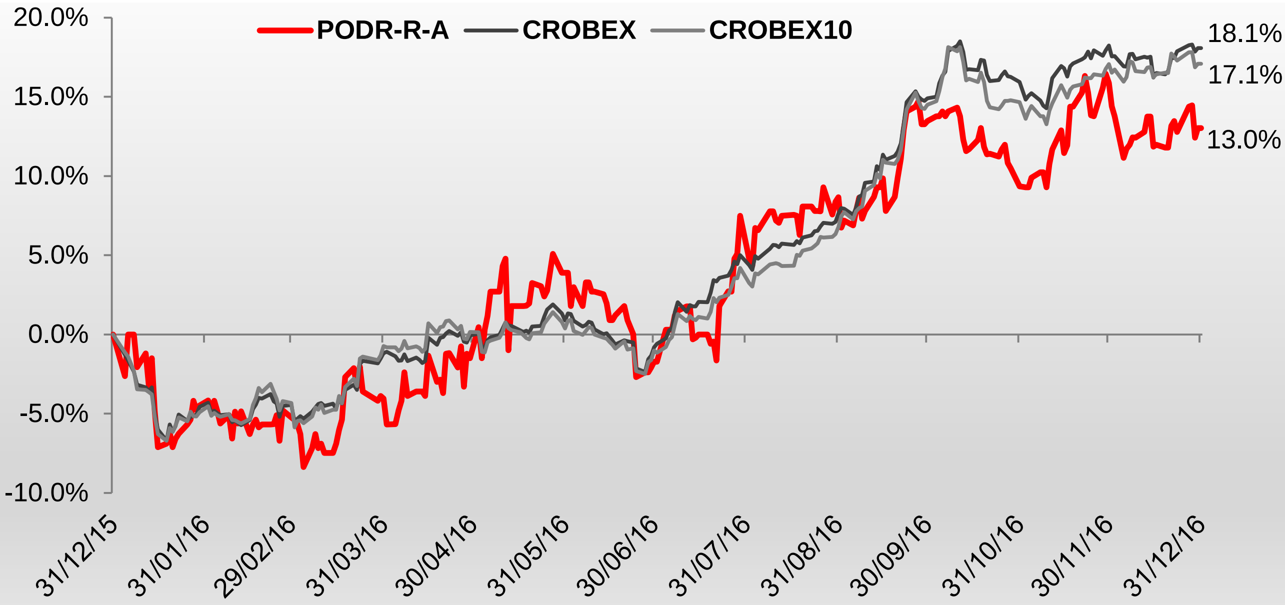
No.	Shareholder	Number of shares	% of ownership
1	PBZ Croatia Osiguranje mandatory pension fund, category B	925,602	13.0%
2	AZ mandatory pension fund, category B	902,874	12.7%
3	RSC - Croatian Pension Insurance Institute	727,703	10.2%
4	RSC - Republic of Croatia	673,845	9.5%
5	Erste Plavi mandatory pension fund, category B	665,166	9.3%
6	Raiffeisen mandatory pension fund, category B	625,298	8.8%
7	Kapitalni fond d.d.	406,842	5.7%
8	Podravka d.d. - treasury account	194,900	2.7%
9	AZ Profit voluntary pension fund	111,752	1.6%
10	Raiffeisen voluntary pension fund	99,965	1.4%
	Other shareholders	1,786,056	25.1%
	Total	**7,120,003**	**100.0%**

The company has a stable ownership structure where the most significant share is held by domestic pension funds and the Republic of Croatia. As at 31 December 2016, domestic pension funds (mandatory and voluntary) hold a total of 49.0% of the company ownership. The Republic of Croatia through the Restructuring and Sale Center (RSC) holds 19.7% of the company ownership and through Kapitalni fond d.d. additional 5.7% of ownership as at 31 December 2016. The company has 2.7% of treasury shares. The company's shares have been listed on the Official Market of the Zagreb Stock Exchange since 7 December 1998, under the PODR-R-A ticker symbol.

Ownership structure as at 31 December 2016



Share price movement in 2016



(closing price in HRK; closing points)	31 December 2016	31 December 2015	% change
PODR-R-A	377.5	334.0	13.0%
CROBEX	1,994.8	1,689.6	18.1%
CROBEX10	1,158.2	989.3	17.1%

In 2016, the price of Podravka's share which grew by 13.0% followed the growth in domestic stock indices Crobex and Crobex10, which grew by 18.1% and 17.1%, respectively.

Performance in the Croatian capital market in 2016

(in HRK; in units) [16]	2016	2015	% change
Average daily price	348.7	318.8	9.4%
Average daily number of transactions	11	12	(8.9%)
Average daily volume	1.112	1,739	(36.0%)
Average daily turnover	387,819.0	554,258.8	(30.0%)

In 2016, the average daily price of the Podravka's share was 9.4% higher than in the comparative period. At the same time, the average daily number of transactions, volume and turnover was lower.

[16]Average daily price calculated as the weighted average of average daily prices in the period, where the weight is daily volume. Other indicators calculated as the average of average daily transactions/volume/turnover.

Valuation

*(in HRK millions; earnings per share in HRK)**	2016	2015	% change
Last price	377.5	334.0	13.0%
Weighted average number of shares	6,929,648	5,987,697	15.7%
Market capitalization	2,615.9	2,000.0	30.8%
EV[17]	3,706.9	2,990.0	24.0%
Earnings per share	26.3	66.4	(60.3%)
EV / Sales revenue	0.9	0.8	7.4%
EV / EBITDA	7.9	6.4	23.7%
EV / EBIT	13.8	10.5	31.5%
Last price / Earnings per share ratio	14.3	5.0	184.9%

***Note:** all indicators are calculated in a way that income statement items are calculated at the level of the last 12 months, while balance sheet items are taken at the period end.

The weighted average number of shares in 2016 is significantly higher than in 2015 due to the capital increase in July 2015. The higher weighted average number of shares in 2016 and significant one-off items in 2015 resulted in lower reported earnings per share in 2016. Earnings per share on the pro-forma level in 2015, excluding the effect of one-off items, would amount to HRK 26.6 per share. At the same time, earnings per share in 2016, excluding the effects of costs related to the sale of the Beverages business, would amount to HRK 26.8 per share.

[17]Enterprise value: Market Capitalization + Net debt + Minority interests.

Additional tables for 2016

Sales revenues by category in 2016[18]

(in HRK millions)	2016	% of sales revenues	2015	% of sales revenues	% change
SBA Food	**3,370.3**	**80.5%**	**2,821.8**	**77.8%**	**19.4%**
Culinary	889.3	21.2%	867.2	23.9%	2.5%
Sweets, cereals for adults, snacks and drinks	343.9	8.2%	287.0	7.9%	19.8%
Lino world	242.3	5.8%	240.8	6.6%	0.6%
Mediterranean food, condiments and core food	707.1	16.9%	637.1	17.6%	11.0%
Meat programme	273.2	6.5%	290.8	8.0%	(6.1%)
Bakery and mill products	427.9	10.2%	155.6	4.3%	175.0%
Other sales	486.6	11.6%	343.3	9.5%	41.8%
SBA Pharmaceuticals	**815.2**	**19.5%**	**805.0**	**22.2%**	**1.3%**
Prescription drugs	587.3	14.0%	556.3	15.3%	5.6%
Non-prescription programme	94.4	2.3%	90.1	2.5%	4.9%
Other sales	133.5	3.2%	158.6	4.4%	(15.8%)
Podravka Group	**4,185.5**	**100.0%**	**3,626.8**	**100.0%**	**15.4%**

In the first quarter of 2016, the existing categories in the Food segment were reorganised for the purpose of more efficient management of the existing and new brands. For the purpose of better understanding of categories, the overview of Food segment categories composition is presented below:

(i) **Culinary**: previously included subcategories, Žito spices,

(ii) **Sweets, cereals for adults, snacks and drinks**: previously included subcategories, Podravka Cereals for adults (previously included in the Baby food, breakfast foods and other food category), Žito breakfast cereals, Žito confectionary products, Žito tea,

(iii) **Lino world**: Baby food, Cereals for children, Creamy spreads and other products related to the Lino brand (everything mentioned was previously included in the Baby food, breakfast foods and other food category),

(iv) **Mediterranean food, condiments and core food**: Mediterranean food, Fruit, Vegetables, Condiments, Žito pasta, Žito rice, Žito frozen and cooled food, Žito cereals (purees, flakes, legumes),

[18] 2015 reclassified, see Notes to the financial statements.

(v) **Meat programme**: previously included subcategories,

(vi) **Bakery and mill products**: Podravka Bakery and mill products, Žito Bakery and mill products,

(vii) **Other sales**: Podravka and Žito other sales related to the production of private labels, service production, trade goods and other not related to own brands.

Historical overview of sales revenues movement according to new categorisation*

(in HRK millions)	2013	2014	2015
Culinary	934.4	903.6	927.0
Sweets, cereals for adults, snacks and drinks	304.1	264.9	261.1
Lino world	256.6	252.0	257.6
Mediterranean food, condiments and core food	571.4	567.8	643.0
Meat programme	281.6	300.5	303.5
Bakery and mill products	76.9	60.8	50.3

***Note:** table includes only Podravka Group assortment. Stated revenues are not decreased by the amount of reclassified portion of marketing expenses.

Sales revenues by region in 2016[19]

(in HRK millions)	2016	% of sales revenues	2015	% of sales revenues	% change
Adria region	**2,997.5**	**71.6%**	**2,590.8**	**71.4%**	**15.7%**
Croatia	1,391.8	33.3%	1,416.9	39.1%	(1.8%)
Slovenia	785.5	18.8%	369.9	10.2%	112.3%
Bosnia and Herzegovina	453.3	10.8%	463.6	12.8%	(2.2%)
Other markets	366.9	8.8%	340.4	9.4%	7.8%
Europe region	**778.8**	**18.6%**	**703.3**	**19.4%**	**10.7%**
Central Europe	480.4	11.5%	491.8	13.6%	(2.3%)
Western Europe	298.4	7.1%	211.5	5.8%	41.1%
Russia, CIS and Baltic region	**262.1**	**6.3%**	**193.1**	**5.3%**	**35.8%**
Russia	240.9	5.8%	175.8	4.8%	37.0%
Other markets	21.2	0.5%	17.2	0.5%	22.8%
New Markets region	**147.2**	**3.5%**	**139.7**	**3.9%**	**5.4%**
Podravka Group	**4,185.5**	**100.0%**	**3,626.8**	**100.0%**	**15.4%**

[19] 2015 reclassified, see Notes to the financial statements.

Consolidated financial statements in 2016

Consolidated Profit and Loss Statement in 2016

(in HRK thousands)	**2016**	**% of sales revenues**	**2015**	**% of sales revenues**	**% change**
Sales revenue[20]	4,185,520	100.0%	3,626,796	100.0%	15.4%
Cost of goods sold	(2,666,632)	(63.7%)	(2,241,737)	(61.8%)	19.0%
Gross profit	**1,518,888**	**36.3%**	**1,385,059**	**38.2%**	**9.7%**
General and administrative expenses	(330,645)	(7.9%)	(324,141)	(8.9%)	2.0%
Selling and distribution costs	(574,449)	(13.7%)	(521,281)	(14.4%)	10.2%
Marketing expenses	(371,449)	(8.9%)	(353,969)	(9.8%)	4.9%
Other expenses / (income), net	26,548	0.6%	99,577	2.7%	(73.3%)
Operating profit	**268,893**	**6.4%**	**285,245**	**7.9%**	**(5.7%)**
Financial income	5,079	0.1%	2,745	0.1%	85.0%
Other financial expenses	(9,780)	(0.2%)	(14,151)	(0.4%)	(30.9%)
Interest expenses	(31,216)	(0.7%)	(36,926)	(1.0%)	(15.5%)
Net foreign exchange differences on borrowings	5,986	0.1%	4,333	0.1%	38.2%
Net finance costs	**(29,931)**	**(0.7%)**	**(43,999)**	**(1.2%)**	**(32.0%)**
Profit before tax	**238,962**	**5.7%**	**241,246**	**6.7%**	**(0.9%)**
Current income tax	(11,369)	(0.3%)	(5,439)	(0.1%)	109.0%
Deferred tax	(39,840)	(1.0%)	167,457	4.6%	n/a
Income tax	**(51,209)**	**(1.2%)**	**162,019**	**4.5%**	**n/a**
Net profit for the year	**187,753**	**4.5%**	**403,265**	**11.1%**	**(53.4%)**
Net profit / (loss) attributable to:					
Equity holders of the parent	**182,399**	**4.4%**	**397,310**	**11.0%**	**(54.1%)**
Non-controlling interests	(5,354)	(0.1%)	(5,955)	(0.2%)	(10.1%)

[20] 2015 reclassified, see Notes to the financial statements.

Consolidated Balance Sheet as at 31 December 2016

(in HRK thousands)	31 Dec. 2016	% share	31 Dec. 2015	% share	% change
ASSETS					
Non-current assets					
Goodwill	26,024	0.5%	26,290	0.5%	(1.0%)
Intangible assets	267,984	5.1%	284,511	5.7%	(5.8%)
Property, plant and equipment	2,304,442	43.6%	1,937,978	38.8%	18.9%
Deferred tax assets	185,769	3.5%	230,946	4.6%	(19.6%)
Non-current financial assets	17,028	0.3%	18,715	0.4%	(9.0%)
Total non-current assets	**2,801,247**	**53.0%**	**2,498,440**	**50.1%**	**12.1%**
Current assets					
Inventories	773,595	14.6%	783,490	15.7%	(1.3%)
Trade and other receivables*	1,177,321	22.3%	1,159,394	23.2%	1.5%
Financial assets at fair value through profit and loss	751	0.0%	215	0.0%	249.3%
Income tax receivable	10,738	0.2%	34,617	0.7%	(69.0%)
Cash and cash equivalents	337,611	6.4%	291,877	5.8%	15.7%
Non-current assets held for sale	184,465	3.5%	223,561	4.5%	(17.5%)
Total current assets	**2,484,481**	**47.0%**	**2,493,154**	**49.9%**	**(0.3%)**
Total assets	**5,285,728**	**100.0%**	**4,991,594**	**100.0%**	**5.9%**

(in HRK thousands)	31 Dec. 2016	% share	31 Dec. 2015	% share	% change
EQUITY AND LIABILITIES					
Shareholders' equity					
Share capital	1,681,261	31.8%	1,685,955	33.8%	(0.3%)
Reserves	612,643	11.6%	549,840	11.0%	11.4%
Retained earnings / (accumulated losses)	583,272	11.0%	514,250	10.3%	13.4%
Attributable to equity holders of the parent	**2,877,176**	**54.4%**	**2,750,045**	**55.1%**	**4.6%**
Non-controlling interests	49,218	0.9%	67,712	1.4%	(27.3%)
Total shareholders' equity	**2,926,394**	**55.4%**	**2,817,757**	**56.5%**	**3.9%**
Non-current liabilities					
Borrowings	998,535	18.9%	752,244	15.1%	32.7%
Provisions	70,675	1.3%	64,126	1.3%	10.2%
Other non - current liabilities	21,179	0.4%	19,611	0.4%	8.0%
Deferred tax liability	50,764	1.0%	56,475	1.1%	(10.1%)
Total non-current liabilities	**1,141,153**	**21.6%**	**892,456**	**17.9%**	**27.9%**
Current liabilities					
Trade and other payables*	805,270	15.2%	777,812	15.6%	3.5%
Income tax payable	5,260	0.1%	2,251	0.0%	133.7%
Financial liabilities at fair value through profit and loss	4,197	0.1%	2,469	0.0%	70.0%
Borrowings	376,618	7.1%	459,544	9.2%	(18.0%)
Provisions	26,836	0.5%	39,305	0.8%	(31.7%)
Total current liabilities	**1,218,181**	**23.0%**	**1,281,381**	**25.7%**	**(4.9%)**
Total liabilities	**2,359,334**	**44.6%**	**2,173,837**	**43.5%**	**8.5%**
Total equity and liabilities	**5,285,728**	**100.0%**	**4,991,594**	**100.0%**	**5.9%**

*2015 restated, see Notes to the financial statements.

Consolidated Cash Flow Statement in 2016

(in HRK thousands)	2016	2015	% change
Profit / (loss) for the year	**187,753**	**403,265**	**(53.4%)**
Income tax	51,209	(162,019)	n/a
Depreciation and amortization	191,430	148,314	29.1%
Favourable purchase gain	-	(140,461)	n/a
Impairment (profit) / loss on property, plant, equipment and intangibles	1,867	11,050	(83.1%)
Impairment (profit) / loss on assets held for sale	9,299	23,554	(60.5%)
Reversal of impairment on assets held for sale	(222)	-	n/a
Capital reserves ESOP	(216)	-	n/a
Remeasurement of financial instruments at fair value	1,465	(156)	n/a
Share based payment transactions	7,995	9,822	(18.6%)
(Profit) / Loss on disposal of property, plant, equipment and intangibles	(6,188)	(1,345)	360.1%
(Profit) / Loss on disposal of assets held for sale	(729)	(864)	(15.6%)
(Profit) / Loss from the sale of shares	(18)	-	n/a
Impairment of trade receivables	2,746	8,177	(66.4%)
(Decrease) / Increase in provisions	(5,920)	(14,878)	(60.2%)
Interest income	(5,079)	(2,247)	126.0%
Income from reversal of liabilities	(1,704)	-	n/a
Interest expense	36,918	42,831	(13.8%)
Effect of changes in foreign exchange rates	(7,038)	(3,290)	113.9%
Changes in working capital:			
(Increase) / Decrease in inventories	15,134	(30,949)	n/a
(Increase) / Decrease in receivables	(856)	(8,360)	(89.8%)
Increase / (Decrease) in payables	37,115	55,113	(32.7%)
Cash generated from operating activities	**514,961**	**337,557**	**52.6%**
Income tax paid	(2,126)	(20,225)	(89.5%)
Interest paid	(36,097)	(43,106)	(16.3%)
Net cash from operating activities	**476,738**	**274,226**	**73.8%**
Cash flow from investing activities			
Purchase of property, plant, equipment and intangibles	(437,112)	(271,238)	61.2%
Acquisition of assets held for sale	-	(3,733)	n/a
Purchase of equity securities	(884)	-	n/a
Sale of assets held for sale	64,700	-	n/a
Proceeds from sale of property, plant, equipment and intangibles	8,155	5,928	37.6%
Income from the sale of shares	672	-	n/a
Loans given	(619)	(969)	(36.1%)
Proceeds from loans given	1,391	349	298.6%
Net cash from investments in money market funds	(274)	2,318	n/a
Interest received	5,079	2,247	126.0%
Acquisition of subsidiaries, net of cash acquired	-	(410,728)	n/a
Net cash from investing activities	**(358,892)**	**(675,826)**	**(46.9%)**
Cash flow from financing activities			
Dividends paid	(48,480)	-	n/a
Purchase of additional minority interests	(8,827)	-	n/a
Proceeds of issue shares - capital premium	-	506,394	n/a
Purchase of treasury shares	(12,977)	(5,899)	120.0%
Sale of treasury shares	3,308	4,792	(31.0%)
Proceeds from borrowings	853,619	480,513	77.6%
Repayment of borrowings	(858,754)	(512,801)	67.5%
Net cash from financing activities	**(72,112)**	**472,999**	**n/p**
Net (decrease) / increase of cash and cash equivalents	**45,734**	**71,399**	**(35.9%)**
Cash and cash equivalents at the beginning of the year	291,877	220,478	32.4%
Cash and cash equivalents at the end of year	**337,611**	**291,877**	**15.7%**

Consolidated Statement of Changes in Equity in 2016

(in HRK thousands)	Share capital	Reserve for treasury shares	Legal reserves	Reinvested profit reserve	Statutory reserves	Other reserves	Retained earnings/ (Accumulated loss)	Total	Non-controlling interests	Total
As at 1 January 2015	**1,063,548**	**67,604**	**16,543**	**298,138**	**43,956**	**41,299**	**217,569**	**1,748,657**	**36,605**	**1,785,262**
Comprehensive income										
Profit for the year	-	-	-	-	-	-	397,310	397,310	5,955	403,265
Foreign exchange differences	-	-	-	-	-	1,334	-	1,334	(8)	1,326
Actuarial losses (net of deferred tax)	-	-	-	-	-	(225)	-	(225)	-	(225)
Total comprehensive income	-	-	-	-	-	**1,109**	**397,310**	**398,419**	**5,947**	**404,366**
Transactions with owners recognised directly in equity										
Share capital increase through issue of new shares	506,394	-	-	-	-	-	-	506,394	-	506,394
Share capital increase from reinvested profits	108,400	-	-	(108,400)	-	-	-	-	-	-
Allocation from retained earnings	-	80,000	14,388	-	3,051	3,190	(100,629)	-	-	-
Purchase of treasury shares	(5,899)	-	-	-	-	-	-	(5,899)	-	(5,899)
Exercise of options	3,690	-	-	-	-	-	-	3,690	-	3,690
Fair value of share-based payment transactions	9,822	-	-	-	-	-	-	9,822	-	9,822
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	289,326	289,326
Additional acquisition of minority interests	-	-	-	-	-	88,962	-	88,962	(264,166)	(175,204)
Total transactions with owners recognised directly in equity	**622,407**	**80,000**	**14,388**	**(108,400)**	**3,051**	**92,152**	**(100,629)**	**602,969**	**25,160**	**628,129**
As at 31 December 2015	**1,685,955**	**147,604**	**30,931**	**189,738**	**47,007**	**134,560**	**514,250**	**2,750,045**	**67,712**	**2,817,757**
Comprehensive income										
Profit for the year	-	-	-	-	-	-	182,399	182,399	5,354	187,753
Effect of the company sold	-	-	-	-	-	-	(40)	(40)	-	(40)
Foreign exchange differences	-	-	-	-	-	(8,946)	-	(8,946)	(207)	(9,153)
Profit or loss from reevaluation of financial assets available for sale	-	-	-	-	-	347	-	347	-	347
Actuarial losses (net of deferred tax)	-	-	-	-	-	(1,583)	-	(1,583)	-	(1,583)
Other comprehensive income	-	-	-	-	-	**(10,182)**	**(40)**	**(10,222)**	**(207)**	**(10,429)**
Total comprehensive income	-	-	-	-	-	**(10,182)**	**182,359**	**172,177**	**5,147**	**177,324**
Transactions with owners and transfers recognised directly in equity										
Allocation from retained earnings	-	-	11,006	-	8,548	45,303	(64,857)	(0)	-	(0)
Purchase of treasury shares	(12,977)	-	-	-	-	-	-	(12,977)	-	(12,977)
Exercise of options	504	-	-	-	-	-	-	504	-	504
Fair value of share-based payment transactions	7,779	-	-	-	-	-	-	7,779	-	7,779
Dividends paid	-	-	-	-	-	-	(48,480)	(48,480)	-	(48,480)
Additional acquisition of minority interests	-	-	-	-	-	8,128	-	8,128	(23,641)	(15,513)
Total transactions with owners recognised directly in equity	**(4,694)**	-	**11,006**	-	**8,548**	**53,431**	**(113,337)**	**(45,046)**	**(23,641)**	**(68,687)**
As at 31 December 2016	**1,681,261**	**147,604**	**41,937**	**189,738**	**55,555**	**177,809**	**583,272**	**2,877,176**	**49,218**	**2,926,394**

Notes to the financial statements

As of 1 January 2016, the Group changed the policy of recording sales revenue. Some compensations and allowances granted to customers for various promotional and marketing activities until now had been recorded within marketing expenses. Since such activities are defined in sales contracts and arise for the purpose of generating sales revenue, since 2016 the Group considers such compensations the decrease in sales revenue, whereby the Group more realistically records sales revenue and adopts the generally accepted practice of other companies in the sector of consumer goods sales. Sales revenues for 2015 have been reclassified in accordance with the new revenue recognition policy. The change of policy of revenue recognition has no impact on the Group's net result and earnings per share.

The Group adopted the decision to change the useful life from an indefinite to a definite useful life for a brand whose dominant sales market is Poland, as of 1 January 2016. Accordingly, it started to record amortization over a period of 6 years. The effect of the change in the current year was an increase in amortization cost of HRK 5,194 thousand.

The Group restated the opening balance and recognised a receivable from discounted bills of exchange and recognised a factoring liability. Trade receivables include receivables from discounted bills of exchange arising from the factoring agreements. In accordance with these agreements, the Group transferred the bills of exchange to a factoring company in exchange for cash. The Group retained the risk of default of the original debtor and the related liability to the factoring company is recorded within other liabilities. Factoring liabilities relate to the liabilities under the regressive right of discounted bills of exchange of several customers that are discounted with several factoring companies. The liabilities are non-interest-bearing for the Group.

President of the Management Board:

Zvonimir Mršić

Koprivnica, 20 February 2017

STATEMENT FROM EXECUTIVES RESPONSIBLE FOR PREPARING FINANCIAL STATEMENTS

Consolidated financial statements of Podravka Group for the period January – December 2016 have been prepared in compliance with the Accounting Act of the Republic of Croatia and International Financial Reporting Standards (IFRS) and provide an overall and true presentation of assets, liabilities, profit and loss, financial position and business operations of Podravka Group and all subsidiary companies involved in the consolidation.

Consolidated financial statements of Podravka Group for the period January – December 2016 were approved by the Management Board on 20 February 2017.

Accounting and Taxes Director:
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